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C O N F I D E N T I A L SECTION 01 OF 03 BANDAR SERI BEGAWAN 000317

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DEPARTMENT FOR EAP/MTS
SINGAPORE FOR DAO AND ODC
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SUBJECT: BRUNEI DEFENSE PROCUREMENT: PERSONNEL CHANGES
AGAIN SLOW DECISIONS

REF: BANDAR 160

Classified By: DCM Justin Friedman, reasons 1.4 (a) (b) & (d)

SUMMARY

¶1. (C) Brunei's Defense White Paper update of May gives new urgency to procuring systems to fill critical gaps in Brunei's surveillance and C4I capabilities. However, turnover at the top of the Ministry of Defense and realignment of procurement responsibilities continue to slow movement on long-stalled procurement decisions. We hope that the latest batch of changes will usher in a period of relative personnel stability, allowing the bureaucracy to settle down to the work of awarding much-delayed contracts in areas that play to U.S. firms' technological strengths. END SUMMARY.

Delayed Decisions on New Gear

¶2. (SBU) In May, the GoB issued a update to its Defense White Paper which gave new priority to procuring border and maritime surveillance assets and developing a stronger C4I technology base (reftel). Procurements of new systems had been on hold pending resolution of a contract dispute with BAE and the UK Government over the purchase of offshore patrol vessels (OPVs). That dispute was largely settled earlier this year when the GoB agreed to take delivery of the ships with the intention of selling them to a third party. For much of 2007, industry has been looking to the announcement of the award of a combat network radio (CNR) contract as a sign that the procurement drought is over. However, GoB and MinDef officials have pointed us to the absence of one key senior official or another as the reason why no decision has been taken. The most recent delay was attributed to MinDef Permanent Secretary Dato Mustapha Sirat's absence from Brunei to attend senior executive training at Harvard University in August, followed by the annual slow down in work across the GoB during Ramadan.

Personnel Shuffle Keeps Procurement on Hold

¶3. (C) On October 11, to the surprise of the Brunei Defense establishment, including Deputy Defense Minister Pehin Mohammad Yasmin Umar, the Prime Minister's Office (PMO)

announced that Mustappa was switching jobs with PMO Permanent Secretary (one of four) Pengiran Dato Haji Abdul Hamid Pengiran Haji Mohd Yassin. Mustappa was the principal author of the White Paper and a key decision maker on all procurements. His departure means that the CNR procurement will remain on hold for the time being.

14. (C) Mustappa told DCM at the Sultan's reception on October 13 marking the first day of Hari Raya (Eid al Fitri) that he had no advance warning of the move and had not been given any idea what his new portfolio would encompass. During other Hari Raya festivities, a PMO insider explained to Ambassador that the move was instigated by a subtle hint from the Sultan to Deputy Prime Minister Agaki that he would like to see the job switch take place, which is the usual method the monarch employs to effect personnel changes in the PMO. Pengiran Dato Mashor Pengiran Ahmad, Deputy PermSec at MinDef told DCM that Pengiran Dato Hamid had managed a only quick visit to the Ministry on the 12th for a short briefing before the Hari Raya holiday.

15. (C) Pengiran Dato Hamid is a relative novice to MinDef with little background in defense issues, having spent much of his career in various positions at the PMO overseeing government-wide administration. At a Hari Raya call at his home on October 20, Hamid told us that he will spend his initial months on the job learning the ropes, a remark we interpret as an indication of more delays on procurement decisions. When the Ambassador inquired about specific pending procurements, Hamid's responses made clear that he had little or no specific knowledge of the current requirements or state of play. NOTE: Hamid told us that he has been briefed on the excellent training offered by the USG-supported Asia Pacific Center for Strategic Studies

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(APCSS) in Hawaii and was interested in taking a course there at the earliest opportunity once he has settled in to his new position. Post will work with Hamid and APCSS to enroll him in the next available Senior Executive course. END NOTE.

Procurement Hold, but Roles May become Clearer

16. (C) Notwithstanding this setback, other recent personnel shuffles in the world of Defense procurement may lead to progress. Royal Brunei Technical Services (RBTS), an arm of MinDef, still has a legal monopoly on military and security procurements, but the military services have been able to make their own procurement decisions independent of RBTS for the past year, according to MinDef Finance Director Ang Guat Lay. RBTS lost its privileged position, in part due to allegations of corruption in the OPV purchase. The task of managing procurements has fallen to the Finance Department, which has neither the staffing nor the experience to run tenders and other procurement activities. In a recent meeting with DCM and ODC Deputy Chief, Ms. Ang confirmed our sense that opening direct procurement by the services had created confusion which has been a significant contributor to the recent paralysis in Defense procurements.

7.(C) This may be changing. In August, Lt. Col (ret.) Amir Hamzah Hj Hanafi was named the new CEO of RBTS. Amir Hamzah is a sharp, well-spoken ex-Military officer who is still closely plugged in to MinDef decision making. Amir Hamzah's previous job was head of the scholarship unit where he reported directly to Deputy MinDef Pehin Yasmin. Amir Hamzah was a key part of the team that opened up the MinDef-run Supreme Commander Scholarship program to start sending students for undergraduate degrees in the U.S. The first five Supreme Commander Scholars have just started at four U.S. universities (University of Pennsylvania, University of Michigan, University of Illinois - Champaign Urbana (x2), and Embry Riddle).

18. (SBU) In a meeting on October 10, Amir Hamzah told us although RBTS is losing its procurement monopoly, it will maintain its traditional procurement services role as it is the only entity in the Brunei security establishment with the technical skills to run tenders. Beyond that, he is trying to restructure the organization into a value added security service provider, adding three new roles to RBTS's mission: a) acquisitions management - helping define and select systems that meet MinDef's and the services' capability requirements; b) systems management to provide local maintenance and logistics services; and c) management of research and development for defense and security needs. RBTS is self-financed, so to survive in an era when it is no longer guaranteed three percent off the top on all defense and security procurements as was previously the case, it must move more strongly into these areas. Hamzah has already had some successes, as RBTS is conducting a requirements study for the military's joint operations center and won a heavy truck maintenance contract for MinDef in late September.

Status of Procurement Priorities

19. (SBU) On the immediate horizon, Hamzah told DCM that he expected the CNR contract to be let by the end of the year. RBTS will finish the joint operations center requirements study by the end of this month and a tender should be issued soon after. RBTS is compiling specifications and requirements for C4I under a contract with MinDef and hopes to win a similar contract to scope a future national disaster management center. Over the next two years, RBTS is positioning itself to take advantage of forthcoming tenders to run naval vessel support services, electronics for land-based systems (follow on the CNR), a training simulator, and by 2010, to run the navy's shipyard.

COMMENT: Turning Procurement Lemons into Lemonade

10. (C) The recent turmoil in defense procurement, combined with Brunei's traditionally slow, top-down decision making process, has soured some U.S. firms on doing business here. Harris Corp. is still a finalist for the CNR, but like other

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firms, it is grumbling about the amount of time and effort it has expended chasing a relatively small contract. Several U.S. firms have pitched to the GoB both technologies and systems integration for the surveillance/UAV, C4I and homeland security missions. We agree with Amir Hamzah that MinDef and other relevant ministries lack the technical expertise to adequately scope and specify Brunei's needs in these areas. If Brunei is to avoid another OPV fiasco, it will need to hire technical consultants to do this job. Hamzah believes that having learned the lesson from past mistakes, MinDef will want to hire consultants -- a job RBTS wants to win in possible partnership with U.S. firms -- on the condition that they exclude themselves from future tenders to design and build these new systems. These may be small contracts for major defense firms, but the sweet lemon is that finally there soon may be several opportunities for U.S. firms to take pieces of contracts that play to U.S. competitive advantages in military procurement.

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